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NEW ZEALAND EMBASSY
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30 April 1981

Dear Mr. Calingaert,

Enclosed is the final version of our aide memoire on the question of subsidised export disposal sales of butter by the United States. The only change from the draft which I left with you yesterday is with respect to the percentage figure used to describe the prevailing level of international market prices for butter relative to internal EC and U.S. price levels.

Thank you for making your time available yesterday to discuss this question.

Yours sincerely,

A.C. Cranston
Minister (Commercial)

DEPARTMENT OF STATE A/CDC/MR
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Mr. Michael Calingaert,
Deputy Assistant Secretary,
International Resources and Food Policy,
Room 3529,
Department of State.

AIDE MEMOIRE

New Zealand is gravely concerned about proposals it understands are being formulated within the United States Administration to provide for heavily subsidised export sales of surplus government support stocks of butter by way of a public tendering system. New Zealand is strongly opposed to the proposals for the reasons set out below.

The current rapid build up of surplus dairy stocks in the United States is the result solely of the operation of domestic policies and programmes. The problems they create will be solved only when the necessary changes are made to those programmes and policies. Temporary expedients of the type being considered will only serve to dilute the impetus for needed fundamental change and shift the burden of adjustment to outside parties such as New Zealand.

Subsidised export disposal sales of surplus agricultural products including dairy products can have a profoundly detrimental impact on permanent unsubsidised market suppliers such as New Zealand. International trade in

butter is characterised by strict quantitative import controls in all major industrialised countries including the United States. Outside these countries the market is extremely small in relation to world production. With the possible exception of "fire sales" to the USSR, it is not capable of absorbing large quantities of product in temporary surplus.

New Zealand has a particularly full appreciation of this because it has been forced to diversify away from the British market in recent years and has monitored very closely where alternative outlets can be found - including in Eastern Europe, the Middle East and North Africa. New Zealand's access to the British market which, in 1980, amounted to 115,000 tonnes will be further reduced this year by 21,000 tonnes to 94,000 tonnes. Any current unsatisfied market demand which may be apparent is very small and temporary and reflects an unusual import demand of the USSR in recent months.

Demand opportunities must also be viewed in relation to prevailing international market price levels. The direct effect of subsidised disposal sales would be to depress and/or hold prices below the level to which they might otherwise move. This would have a serious impact

on the returns the New Zealand dairy industry is able to achieve from the international market. These returns are of vital importance to the New Zealand economy. Prevailing international price levels, which are only around 65 percent of the internal EC and US prices, cannot, in New Zealand's view, be judged as "good" "high" or even "adequate".

The proposals being formulated should also be viewed against the background of other current issues in New Zealand's trade relations with the United States. With the exception of casein, the United States maintains very tight controls on imports of all dairy products (including butter) and has insisted on the maintenance of its GATT waiver which sanctions these controls. On casein, the possibility of imposing import controls is now being closely studied. Such controls would have a very harmful effect on New Zealand, the principal supplier of casein to the U.S.

The United States has previously been a strong proponent of internationally agreed controls on the use of subsidies in international trade and has entered into obligations in the GATT with respect to their use. The proposals under consideration conflict with this position and these obligations.

New Zealand urges that the United States take these

further matters into account in considering the question of sales of subsidised dairy products.

29 April 1981